

February 21, 2005

MEMORANDUM

TO: Local Issuer's Bond Counsel Distribution List

FROM: Richard A. Davis
Public Finance Manager

SUBJECT: Virginia Public School Authority ("VPSA") School Financing Bonds
(1997 Resolution) Spring Bonds¹

Attached herewith are copies of preliminary debt service schedules for localities for which you have been appointed bond counsel. Estimated debt service schedules are also being e-mailed to localities who filed applications to participate in the financing. The draft of the Bond Sale Agreement ("BSA") can be found on the Department of Treasury website on the Internet at the address listed below. The BSA and Appendix D thereto are to be filed with the VPSA at the address indicated in the BSA no later than **March 29, 2005. Please utilize an overnight delivery service to ensure timely arrival. The closing date will be on or about May 12, 2005.**

The electronic information package, including all form documents, is available at the Department of Treasury home page on the Internet at:

<http://www.trs.virginia.gov/Debt/VPSAapplication.asp>

For local issuers, the spring transaction continues the practice of recent sales in that the VPSA is structuring the financing to purchase each locality's local school bonds for a price substantially equal to the amount of proceeds the locality has requested. This practice is intended to assure that the purchase price VPSA pays will finance projects adequately and at the same time accommodate a range of possible loan maturities and amortization schedules within the participant pool. As in prior recent transactions, actual market conditions will be evaluated in the pricing and sizing of the transaction. VPSA expects to resize to the extent permitted the par amount of local school bonds on the VPSA sale date. For example, if a locality's requested loan maturity and amortization schedule results in a bond that is valued at a price greater than par, VPSA intends to decrease the par amount of such bond to the extent required to provide proceeds approximately equal to, but not less than, the amount of proceeds requested.

¹ The Virginia Public School Authority is considering two refunding opportunities; therefore, the series designation for the spring pool has not been determined.

MEMORANDUM

Local Issuer's Bond Counsel Distribution List

February 21, 2005

Page 2

Conversely, if a locality's requested loan maturity and amortization schedule results in a bond that is valued at a price less than par, VPSA is willing, at the locality's request, to increase the amount of bonds to the extent required to generate the proceeds requested. To obtain this flexibility, the locality, particularly a locality requesting maturities longer than 20 years, level debt service (as opposed to level principal) or deferred principal amortization, should set the authorized maximum principal amount of its bonds at 5% above the amount of proceeds requested.

In general, the VPSA would expect to downsize the par amount of bonds with relatively more rapid amortization schedules (shorter maturities, level principal) and the VPSA would expect to upsize the par amount of bonds with relatively slower amortization schedules (deferred principal, longer maturities, level debt service). **Because the VPSA cannot predict the couponing structure of the winning bid, the VPSA is requesting that each locality authorize a "not to exceed" or "up to" principal amount of bonds that is sufficiently in excess of the amount of proceeds requested. In the event a locality's bond structure would result in a discount purchase price and the maximum principal amount of bonds authorized does not exceed the amount of the proceeds requested by at least the amount of the discount, the resulting purchase price paid will be less than the amount of proceeds requested.**

The Bond Sale Agreement has been modified to account for the sizing for proceeds approach. Certain particular changes are called to your attention. First, in the header on the first page of the bond sale agreement, two line entries related to dollar amounts have been inserted. The Maximum Authorized Par Amount should equal the Proceeds (Requested) plus an up to 5% cushion. VPSA and its financial advisor will be pleased to assist you in quantifying an appropriate cushion. Second, the bond sale agreement and bond resolution have been revised to remove the purchase price within a percentage range of par parameter. The purchase price is to be "substantially equal" to the Proceeds (Requested) except in the cases where issuing at the maximum authorized amount would not be sufficient to generate the requested proceeds. In such instances where a discount would be paid, bracketed language has been included in the bond resolution for a minimum purchase price parameter as a percentage of proceeds requested; if such a figure is required the locality and its bond counsel should consult with the VPSA and its financial advisor in developing that parameter. An acknowledgment relating to the possibility of receiving a discount is included in the bond sale agreement. Third, the resolution has added certain recitals (there are similar acknowledgments in the bond sale agreement) which explain sizing adjustments and VPSA's objective to pay a purchase price that reflects the market value for the local school bonds.

Please ensure that the minutes for any resolution/ordinance taken by your school board and board of supervisors/council indicate by name each member voting, and the member's vote (or abstention). The Virginia Supreme Court in Town of Madison v. Ford held that the minutes of the town council's meeting stating that all members were present and that the motion to adopt

MEMORANDUM

Local Issuer's Bond Counsel Distribution List

February 21, 2005

Page 3

ordinance carried unanimously were **insufficient** to comply with Article VII, Section 7 of the Virginia Constitution. That provision states, "On final vote on any ordinance or resolution, the name of each member voting and how he voted shall be recorded." The Bond Sale Agreement resolution form (Appendix B) accommodates this requirement.

Please note when accessing the electronic information on the website that there are *three* versions of Appendix C (Use of Proceeds Certificate). Please complete the applicable version (New Money, Current Refunding or New Money and Current Refunding) as it applies to your client's situation.

Please be prepared to participate in a conference call with VPSA staff, financial advisor and bond counsel to discuss any outstanding interim financing to be refunded with proceeds from the spring bonds. Such conference calls will be scheduled as needed.

At the VPSA Board meeting on March 16, 2005 the Board will consider approval of the applications received from localities interested in participating in the financing. Applications are being reviewed and approval of funding amounts is expected on that date. If approved, localities and their counsel will be notified of their anticipated funding amount. If not approved, you will be notified as soon as possible following the Board meeting. If you have any questions about the BSA, or need assistance, please call me at (804) 225-4928 or Michael Walsh, Senior Public Finance Analyst, at (804) 225-4926.

RAD:mdw

Attachments

c: Stephanie L. Hamlett, Esq.
Senior Assistant Attorney General
A. Francis Robinson, Jr., Esq.
Sidley Austin Brown & Wood LLP
Jane Y. Kim, Esq.
Sidley Austin Brown & Wood LLP
Matthew Hughey, Esq.
Sidley Austin Brown & Wood LLP
Peter H. Shea
BB&T Capital Markets